

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF THE CITY OF )  
AURORA FOR THE APPROVAL OF NEW SCHEDULE )  
OF GAS RATES AND CHARGES )

CAUSE NO. 43527

FILED

DEC 01 2008

PREFILED TESTIMONY OF

INDIANA UTILITY  
REGULATORY COMMISSION

MARK H. GROSSKOPF

IN SUPPORT OF SETTLEMENT AGREEMENT

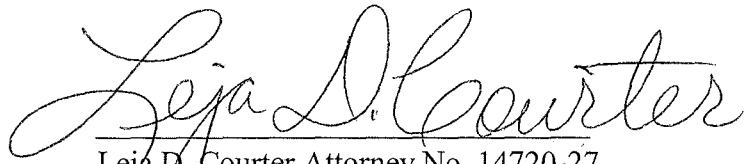
ON BEHALF OF

THE INDIANA OFFICE OF

UTILITY CONSUMER COUNSELOR

December 1, 2008

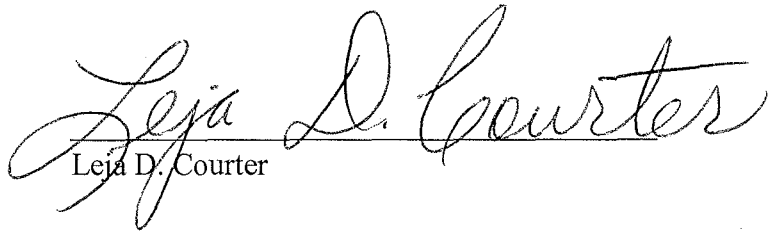
Respectfully submitted,

  
Leja D. Courter Attorney No. 14720-27  
Assistant Consumer Counselor

## CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing **OUCC TESTIMONY OF MARK H. GROSSKOPF IN SUPPORT OF SETTLEMENT AGREEMENT** has been served upon the following counsel of record in the captioned proceeding by electronic service and/or by depositing a copy of same in the United States mail, first class postage prepaid, on December 1, 2008.

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**TESTIMONY OF MARK H. GROSSKOPF  
IN SUPPORT OF SETTLEMENT AGREEMENT  
CAUSE NO. 43527  
AURORA MUNICIPAL GAS UTILITY**

1   **Q:     Please state your name and business address.**

2   A:     My name is Mark H. Grosskopf and my business address is 115 W. Washington  
3           Street, Suite 1500 South, Indianapolis, Indiana 46204.

4   **Q:     By whom are you employed and in what capacity?**

5   A:     I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as a  
6           Utility Analyst. I have worked as a member of the OUCC's Natural Gas Division  
7           since June of 1999.

8   **Q:     Please describe your background and experience.**

9   A:     I graduated from Indiana University in May 1980, receiving a Bachelor of  
10          Science degree in business with a major in accounting. I was employed as an  
11          Internal Auditor with Stokely-Van Camp, Inc. from July 1980 to October 1983. I  
12          was then employed as an Accountant with Shaffstall Corporation from 1984 to  
13          1991; as Accounting Manager with J.M. Mallon, Inc. from 1991 to 1993; and as  
14          Controller with Perfection Property Services, Inc. and The Holding Company,  
15          Inc., both under the same ownership, from 1994 to 1995. I joined the OUCC in  
16          April of 1995. I became a Certified Public Accountant in November of 1998.

17   **Q:     Have you previously testified before the Indiana Utility Regulatory**  
18          **Commission?**

19   A:     Yes, I have testified as an accounting witness in various causes involving water,

1 wastewater, electric, and gas utilities.

2 **Q: What have you done to prepare as a witness in this proceeding?**

3 A: I have reviewed Aurora Municipal Gas Utility's (Petitioner) prefiled testimony  
4 and exhibits, analyzed supporting documentation and responses to OUCC  
5 discovery requests provided by Petitioner, and conducted an examination of  
6 Petitioner's books and records. I also participated in informal discussions with  
7 Petitioner's consultant, Patrick Callahan, CPA, and OUCC staff members in  
8 developing issues in this Cause. As a result of my analysis and discussions with  
9 the Parties in this Cause, I was prepared to recommend several adjustments to  
10 Petitioner's proposed revenue requirements. Subsequently, I participated in  
11 settlement discussions with Petitioner's consultant.

12 **Q: What is the purpose of your testimony?**

13 A: As a result of the settlement discussions, the Parties have negotiated proposed  
14 resolutions of all issues arising in this Cause, as set forth in a Settlement  
15 Agreement sponsored by the OUCC in supplemental testimony. I will discuss the  
16 effect the Settlement Agreement has on adjustments to pro forma operating  
17 expenses, taxes, working capital, and a proposed capital improvement program.

18 **Q: Have you submitted schedules related to your testimony in support of the**  
19 **Settlement Agreement?**

20 A: No. Petitioner is sponsoring the settlement schedules to be included with its  
21 supplemental testimony in this Cause.

1 **Q: What effect does the Settlement Agreement have on the revenue**  
2 **requirements proposed in Petitioner's case-in-chief?**

3 A: The Parties have agreed upon changes to the pro forma Operations &  
4 Maintenance (O&M) Expenses, Taxes Other Than Income, Capital Improvement  
5 Program, and Working Capital. The Parties also agreed on eliminating the  
6 commodity cost of gas from base rates, and recovery of these gas costs through  
7 the GCA process.

8 **Q: Please explain the issues in this Cause that have been agreed upon by the**  
9 **Parties for inclusion in final rates.**

10 A: As the sole change to O&M Expense, the Parties agreed to not increase  
11 transportation expense due to increases in fuel cost. The Parties recognize that  
12 while the price of gasoline was at or above the level suggested by Petitioner's  
13 direct case in August of 2008, gasoline prices have fallen considerably since that  
14 time. Due to the volatility and uncertainty of gasoline prices, the Parties agree  
15 that the test year average is a reasonable average to use for Petitioner's pro forma  
16 transportation costs. As the sole change to Taxes Other Than Income, the utility  
17 receipts tax adjustment was corrected to include bad debt expense as a deduction  
18 from pro forma revenues when calculating taxable revenues. Regarding the  
19 Capital Improvement Program, the Parties agreed to amortize the expected cost of  
20 the mapping program over five years, to coincide with the expected life of the  
21 rates in this Cause. The change to Working Capital in the revenue requirements is  
22 a result of the change in the pro forma O&M Expense.

1   **Q:   Are these all of the changes to Petitioner's rate request agreed to by the**  
2   **Parties in this Cause?**

3   A:   The elimination of the commodity cost of gas from base rates, to be recovered  
4       through the GCA process, and the adjustments to revenue requirements I just  
5       described encompasses all of the agreed upon changes to Petitioners filing.

6   **Q:   What is your general assessment of Petitioner's operational expenses,**  
7   **revenue requirement, and rate request?**

8   A:   It should be noted that there are relatively few adjustments to Petitioner's original  
9       case-in-chief in the proposed settlement. This is due in no small part to the  
10      reasonableness of Petitioner's request. In other words, I did not find any  
11      component of Petitioner's request that I would characterize as excessive. As a  
12      result of the OUCC's review in this Cause, it appears that Petitioner has made  
13      efforts to control certain costs of operating the utility. Some significant cost areas  
14      reflect notable reductions from test year amounts, reflecting Petitioner's cost  
15      consciousness. Also, Petitioner's expected cost of this proceeding appears to be  
16      particularly reasonable when comparing the estimated rate case expense in this  
17      Cause with the rate case expenses requested in other recent gas utility rate filings.  
18      While I would not categorize the amount of the requested rate increase as small or  
19      insignificant, when viewed in the context of being Petitioner's first increase in  
20      eleven years, I believe the increase is justified and should be approved.

21   **Q:   Are you aware of any concerns expressed by ratepayers regarding**  
22   **Petitioner's request for a rate increase?**

1 A: Yes, the OUCC received several comments from ratepayers expressing concern  
2 over Aurora Municipal Gas Utility's request for a rate increase. In particular, I  
3 followed up on comments received from Rick Weber, president of Batesville  
4 Products, Inc. I spoke with Mr. Weber and invited him to join in a conference  
5 call with the OUCC and representatives of Aurora Municipal Gas Utility. While  
6 Mr. Weber did not think a conference call was necessary, he did share some of his  
7 concerns. Mr. Weber categorized the requested rate increase as being in excess of  
8 what the market will bear during these times when the cost of the commodity is so  
9 high. He would like to see "cost conservation" rather than a cost increase. Mr.  
10 Weber understands that Aurora Municipal Gas Utility is also facing increased  
11 costs of doing business, but he thinks they should try to offset increasing costs  
12 with cost savings in other areas as Batesville Products and other companies in a  
13 competitive market must do. Mr. Weber understands that some rate increase is  
14 inevitable, but hopes to minimize the amount. I explained to Mr. Weber that the  
15 OUCC tries to find every cost savings we can when analyzing a utility rate case.  
16 We share his concerns about the cost consciousness of utilities and do our best to  
17 help mitigate rate increases that may be necessary. In this case and in summary,  
18 we encourage Aurora Municipal Gas Utility to continue its efforts to control  
19 costs, thus minimizing the need to pass additional costs on to ratepayers.

20 **Q: Have you reviewed the testimony filed in support of the settlement agreement**  
21 **by Petitioner's witness Patrick Callahan?**

22 A: No, I have not yet had an opportunity to review Mr. Callahan's testimony in  
23 support of the settlement agreement. However, attached is an unexecuted copy of

1           the Settlement Agreement, which I believe accurately depicts the resolution of all  
2           of the issues in this Cause.

3    **Q:    Does this conclude your testimony in support of the settlement agreement?**

4    **A:    Yes, it does.**



**BEFORE THE**  
**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF THE CITY    )  
OF AURORA FOR THE APPROVAL OF NEW        )  
SCHEDULE OF GAS RATES AND CHARGES        )**       **CAUSE NO. 43527**

**STIPULATION AND SETTLEMENT AGREEMENT**

Petitioner, City of Aurora, Indiana d/b/a Aurora Municipal Gas Utility (hereinafter "Petitioner" or "Aurora Gas") and the Indiana Office of Utility Consumer Counselor (hereinafter "OUCC") have met through their respective representatives for purposes of discussing the evidence of record and the information gained through the discovery process. The result of such discussions between the Petitioner and the OUCC (hereinafter collectively "the Parties") is a settlement of all issues in this Cause, as described by this Stipulation and Settlement Agreement (hereinafter the "Settlement").

The Parties believe that the evidence of record supports the terms of this Settlement. The Parties acknowledge that the terms and conditions of this Settlement are a result of negotiations between the Parties relative to the position each has taken or would take in further proceedings in this Cause. In the interest of efficiency, saving the limited resources of the regulatory bodies involved, and recognizing the reasonableness of the results produced by this Settlement, the Parties herein stipulate and agree as follows:

**I.       Operating Revenue and Revenue Requirements**

The Parties' agreement with respect to Aurora Gas' pro forma operating revenue and its revenue requirements under Ind. Code § 8-1.5-3-8 are reflected by line item in Joint Settlement Exhibit 2, which is attached hereto, and is summarized below:

1. *Petitioner's Operating Revenue.* The Parties agree that Aurora Gas' total pro forma operating revenues at present rates are \$3,662,277. Upon the Commission's adoption of a Final Order approving the terms and conditions of this Settlement Agreement, the Parties agree that Aurora Gas' pro forma operating revenues should be increased by \$167,875 in arriving at the pro forma total operating revenues at proposed rates, including cost of commodity, of \$3,830,152, representing a 4.58% increase in pro forma operating revenues.

2. *Aurora Gas' Annual Cash Revenue Requirements.* The Parties agree Aurora Gas' annual cash revenue requirements are as summarized below:

a. *Operation and Maintenance Expenses - Gas Costs.* Aurora Gas' annual revenue requirement for gas costs is \$3,215,183.

b. *Other Operating and Maintenance Expenses.* Aurora Gas' annual revenue requirement for other operating and maintenance expenses is \$415,552.

c. *Depreciation Expense.* Aurora Gas' annual revenue requirement for depreciation expense is \$72,883.

d. *Taxes other than Income.* Aurora Gas' annual revenue requirement for taxes other than income is \$68,053.

e. *Capital Improvement Program – Mapping.* Aurora Gas' annual revenue requirement for its Capital Improvement Program is \$6,000.

f. *Payment in Lieu of Property Taxes (PILT).* Aurora Gas' annual revenue requirement for PILT is \$24,750.

g. *Working Capital.* Aurora Gas' annual revenue requirement for working capital is \$10,389.

h. *Cash Return on Plant.* Aurora Gas' annual revenue requirement for Cash Return on Plant is \$31,041.

3. *Aurora Gas' Aggregate Annual Revenue Requirement.* The Parties agree that Aurora Gas' annual net revenue requirement is \$3,830,152, as detailed below:

Operation and Maintenance Expenses – Gas Costs	\$3,215,183
Operation and Maintenance Expenses - Other	\$415,552
Depreciation Expense	\$72,883
Taxes other than Income	\$68,053
Capital Improvement Program - Mapping	\$6,000
PILT	\$24,750
Working Capital	\$10,389
Cash Return on Net Plant	<u>\$31,041</u>
<b>Revenue Requirement</b>	<b>\$3,843,851</b>
Less: Other Operating Receipts	<u>\$13,699</u>
<b>Net Revenue Requirement</b>	<b>\$3,830,152</b>
 Present Rate Revenues	 <u>\$3,662,277</u>
<b>Deficit</b>	<b>\$167,875</b>
 <b>Percent Increase Required</b>	 <b>4.58%</b>

4. *Amount of Stipulated Rate Increase and Approval of Changes to Rate Schedules.* The Parties agree that Aurora Gas' current rates and charges for service should be increased upon the Commission's adoption of a Final Order approving the terms and conditions of this Settlement Agreement so as to produce additional operating revenues of \$167,875, and total pro forma operating revenues, including cost of commodity, of \$3,830,152, representing a 4.58% increase in operating revenues, as shown in Joint Settlement Exhibit 2.

## II. Cost of Service and Rate Design

5. Aurora Gas proposes to increase Petitioner's existing rates across the board on all customer classes, which includes Petitioner's residential, small commercial and small public authority customers. Following the OUCC's review of these proposed across the board allocations, the OUCC agrees that Petitioner's proposed tariffs are reasonable and should be authorized.

### **III. Settlement Exhibit**

6. The Parties agree that Joint Settlement Exhibit 2, described in further detail by the testimony of Petitioner's witness Patrick Callahan and the OUCC's witness Mark H. Grosskopf, properly describes the various elements of the Parties' final settlement. Further, the Parties believe that such Exhibit should be used by the Commission to enter a final order in this Cause.

### **IV. Sufficiency of the Evidence**

7. The Parties believe Petitioner's direct testimony and exhibits, the OUCC's testimony in support of settlement agreement, along with this Stipulation and Settlement Agreement, constitute substantial evidence sufficient to support this Settlement and provide an adequate evidentiary basis upon which the Commission may make findings of fact and conclusions of law necessary to issue a final order adopting and approving this Settlement.

### **V. Settlement -- Scope and Approval**

8. Neither the making of this Settlement nor any of its provisions shall constitute in any respect an admission by any Party in this or any other litigation or proceeding. Neither the making of this Settlement, nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Settlement, shall establish any

principles or legal precedent applicable to Commission proceedings other than those resolved herein.

9. This Settlement shall not constitute nor be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any tribunal of competent jurisdiction. This Settlement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the issues resolved herein in any future regulatory or other proceedings.

10. The undersigned have represented and agreed that they are fully authorized to execute this Settlement on behalf of their designated clients, and their successors and assigns, who will be bound thereby, subject to the agreement of the Parties on the provisions contained herein and in the attached exhibits.

11. The communications and discussions during the negotiations and conferences attended only by any or all of the Parties, their attorneys, and their consultants have been conducted based on the explicit understanding that said communications and discussions are or relate to offers of settlement and therefore are privileged. All prior drafts of this Settlement and any settlement proposals and counterproposals also are or relate to offers of settlement and are privileged.

12. This Settlement is conditioned upon and subject to Commission acceptance and approval of its terms in their entirety, without any change or condition that is unacceptable to any Party. Each term of the Settlement is in consideration and support of each and every other term.

13. The Parties will work together to finalize and file an agreed upon proposed Order with the Commission as soon as possible.

14. The Parties hereto will either support, or not oppose on rehearing, reconsideration, and/or appeal, a Commission order accepting and approving this Settlement in accordance with its terms.

Accepted and Agreed on this \_\_\_\_ day of December, 2008.

CITY OF AURORA, INDIANA  
d/b/a AURORA MUNICIPAL GAS UTILITY

INDIANA OFFICE OF UTILITY  
CONSUMER COUNSELOR

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P.O. Box 178  
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Leja D. Courter  
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Counselor  
115 West Washington Street  
Indianapolis, Indiana 46204


**VERIFICATION**

STATE OF INDIANA       )  
                                  )       ss:  
COUNTY OF MARION     )

The undersigned, Mark H. Grosskopf, under penalties of perjury and being first duly sworn on his oath, says that he is a Employee for the Indiana Office of Utility Consumer Counselor; that he caused to be prepared and read the foregoing that the representations set forth therein are true and correct to the best of his knowledge, information and belief.

  
By: Mark H. Grosskopf  
Indiana Office of  
Utility Consumer Counselor

Subscribed and sworn to before me, a Notary Public, this 18 day of December, 2008.

  
Signature  
Kimberly J. Weaver  
Printed Name

My Commission Expires: 5/9/13

My County of Residence: Morgan